

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07  
NSAE-00 PA-01 SS-15 PRS-01 SP-02 TRSE-00 NSC-05  
NSCE-00 SSO-00 USIE-00 DODE-00 EURE-00 INRE-00  
EB-07 OMB-01 /066 W  
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O R 051634Z MAY 77  
FM AMEMBASSY REYKJAVIK  
TO SECSTATE WASHDC IMMEDIATE 7273  
INFO COMICEDFOR

C O N F I D E N T I A L SECTION 1 OF 2 REYKJAVIK 0635

COMICEDFOR FOR ADMIRAL BERNSTEIN

E.O. 11652: GDS  
TAGS: PFOR, MARR, IC, US, NATO  
SUBJECT: US DECISION RE CIVILIAN AIR TERMINAL: COMMENTS ON  
PRIME MINISTER'S REACTION

REF: (A) REYKJAVIK 0629  
(B) STATE 100885  
(C) REYKJAVIK 618  
(D) REYKJAVIK 157  
(E) REYKJAVIK 220

1. PRIME MINISTER'S REACTION TO USG DECISION (REFTEL A)  
HAS IMPLICATIONS FOR NEAR TERM US-ICELANDIC RELATIONS  
THAT CANNOT HELP BUT BE NEGATIVE. IN PRESENTING HIS  
REQUEST TO VICE PRESIDENT ON JANUARY 29, HALLGRIMSSON  
STAKED SIGNIFICANT MEASURE OF HIS PRESTIGE AS LEADER OF  
GOVERNMENT AND OF INDEPENDENCE PARTY ON OUR REPLY. USG  
TURN-DOWN HAS NOW PUT HIM IN PERSONALLY EMBARRASSING  
RELATIONSHIP TO BOTH PARTY AND COALITION PARTNERS. HE  
HAS, ON OCCASION, BEEN CRITICIZED WITHIN HIS OWN  
INDEPENDENCE PARTY FOR HIS ALLEGED LACK OF PERSONAL  
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DECISIVENESS AND FOR HIS ALL-OUT SUPPORT OF IDF  
PRESENCE. ALTHOUGH HE WILL UNDOUBTEDLY BE RE-ELECTED  
PARTY CHAIRMAN AT ITS ANNUAL CONVENTION THIS WEEK, HIS  
INABILITY TO PRODUCE ON CIVILIAN TERMINAL WILL STIMULATE  
THESE CRITICISMS FURTHER AND WORK TO HIS DISADVANTAGE  
AND PROBABLY TO OURS IN THAT HE MAY BE PUSHED INTO  
POSITIONS REGARDING RELATIONS WITH USG ON DEFENSE ISSUES

WHICH HE PERSONALLY WOULD PREFER NOT TO TAKE.

2. PRIME MINISTER'S REACTION, I AM CERTAIN, WAS ALSO AFFECTED BY CURRENT POLITICAL TENSION IN COUNTRY ARISING OUT OF THREAT OF GENERAL STRIKE AND REAL RISK THAT HE MAY BE FORCED TO ACCEPT INFLATIONARY WAGE SETTLEMENT THAT WILL ERODE SUBSTANTIAL PROGRESS HIS GOVERNMENT HAS MADE IN BRINGING INFLATION RATE DOWN FROM 50 PERCENT LEVEL OF PREVIOUS LEFTIST REGIME TO CURRENT 25 PERCENT FIGURE. AS WAGE NEGOTIATIONS BETWEEN TRADE UNIONS AND EMPLOYERS APPROACH CLIMAX WITH GOVERNMENT HOVERING IN WINGS, HE ALREADY HAS ONE MONKEY ON HIS BACK. FOR REASONS INDICATED PARA 1 ABOVE, HE PROBABLY FEELS USG HAS NOW ADDED ANOTHER. ALSO, OUR ANSWER, COMING SO SOON AND WITHOUT WARNING AFTER HIS STRONG ENDORSEMENT OF CONTINUED CLOSE RELATIONS WITH USG AND OF IDF PRESENCE IN ALTHING ON APRIL 28 (REFTEL C) COULD NOT HELP BUT MAKE HIM FEEL HE HAD BEEN HIT HARD, AND HE REACTED ACCORDINGLY. DCM CHRISTENSEN WHO ACCOMPANIED ME TO MEETING HAD IMPRESSION OUR RESPONSE STUNNED PRIME MINISTER ALMOST AS THOUGH HE HAD CONFIDENTLY EXPECTED TO BE TOLD SOMETHING DIFFERENT.

3. ONE OTHER ELEMENT UNDOUBTEDLY CONTRIBUTED TO HIS REACTION: HIS VIEW THAT OUR RESPONSE WAS TOTAL REJECTION OF HIS REQUEST AND NOTHING MORE THAN SIMPLE REITERATION OF 1974 USG POSITION. IN REQUESTING THAT WE HELP FINANCE CONSTRUCTION OF TERMINAL HE HAD, IN EFFECT, ASKED THAT WE LOOK AHEAD, NOT BACKWARD, BY EXAMINING HIS REQUEST IN CONTEXT OF CHANGED ICELANDIC POLITICAL CLIMATE WHICH

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WILL AFFECT OUTCOME OF UPCOMING NATIONAL ELECTIONS. AS HE SEES IT, WE HAVE NOW TOLD HIM THAT 1974 ARRANGEMENT REMAINS BEDROCK OF OUR SECURITY RELATIONSHIP AND THAT WE DO NOT BELIEVE FRESH LOOK IS REQUIRED. OBVIOUSLY, HE DISAGREES SINCE, AS HE TOLD THE VICE PRESIDENT (REFTEL D) OUR TENURE AT KEFLAVIK DEPENDS DIRECTLY ON WHETHER THE INDEPENDENCE PARTY WILL LEAD THIS COUNTRY'S NEXT GOVERNING COALITION. IN THIS, WE BELIEVE HE IS RIGHT. (REFTEL E)

4. QUESTION, THEN, IS WHAT PRIME MINISTER WILL NOW DO. I DOUBT THAT HE WILL DO ANYTHING THAT WILL BASICALLY AFFECT EITHER OUR TENURE OF THE BASE OR ITS OPERATIONAL READINESS. IN CONTRAST TO LEADERSHIP OF HIS PROGRESSIVE PARTY COALITION PARTNERS, HE IS COMMITTED TO DEFENSE ARRANGEMENTS, APPRECIATES THEIR IMPORTANCE AND IS PERSONALLY A MODERATE BY TEMPERAMENT. NEVERTHELESS, HE WILL FEEL COMPELLED TO SHOW THAT HE HAS NOT ACCEPTED OUR DECISION QUIETLY, AND HIS RESPONSE WILL PROBABLY TAKE THE FORM, AS HE INDICATED YESTERDAY, OF ACKNOWLEDGING SENTIMENT

WITHIN HIS OWN PARTY FOR FRESH LOOK AT THE FINANCIAL  
RELATIONSHIP OF THE BASE TO ICELAND. IN THIS CONTEXT,  
HE COULD TELL HIS ADMINISTRATORS TO PRESS HARD FOR A  
RESOLUTION IN ICELAND'S FAVOR OF VARIOUS OUTSTANDING FINANCIAL  
ISSUES, E.G., ROAD MAINTENANCE FEES, ELECTRICITY RATES, ETC.  
ON WHICH DECISIONS UP TO NOW HAVE EITHER BEEN  
FINESSED OR POSTPONED TO FINANCIAL ADVANTAGE OF BASE.  
THESE CHARGES IF IMPOSED COULD BE COSTLY. IN THE CASE  
OF ROAD MAINTENANCE CHARGE, THEY COULD RESULT IN ANNUAL  
PAYMENTS BY THE BASE IN THE ORDER OF \$791,000 -  
\$836,000, (UP FROM CURRENT ANNUAL RATE OF \$7650) TO  
RELECT CHANGED DOLLAR VALUE OF KRONUR. "PRICE EQUALI-  
ZATION" OF ELECTRICITY INVOLVES GOI RETROACTIVE CLAIM  
OF APPROXIMATELY \$330,000. DESPITE HIS EXPRESSED  
DISTASTE FOR QTE RENT UNQTE, PRIME MINISTER COULD ALSO  
REQUEST THAT WE AGREE TO OFFSETTING FINANCING ARRANGEMENTS  
THAT IN HIS JUDGMENT WOULD MORE ACCURATELY REFLECT THE  
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VALUE OF THE NATO BASE TO THE US AND TO OUR NATO  
PARTNERS. FINALLY, WE INCLUDING BASE AUTHORITIES, MAY  
FIND ICELANDIC OFFICIALS LESS COOPERATIVE AND UNDERSTANDING  
WHEN EMBARRASSING PROBLEMS ARISE IN CONNECTION WITH BASE,

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NSAE-00 PA-01 SS-15 PRS-01 SP-02 TRSE-00 NSC-05  
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FM AMEMBASSY REYKJAVIK  
TO SECSTATE WASHDC IMMEDIATE 7274  
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C O N F I D E N T I A L SECTION 2 OF 2 REYKJAVIK 0635

COMICEDFOR FOR ADMIRAL BERNSTEIN

OR WHEN WE SEEK THIER COOPERATION ON OTHER MATTERS. THUS, WE SHOULD NOT ASSUME THAT IN PROVIDING HIM THE ANSWER ON THE TERMINAL THAT WE ARE HOME FREE. WE ARE NOT, AND CONCERNED WASHINGTON AGENCIES SHOULD PLAN ACCORDINGLY.

5. IN CONCLUDING, I WISH EXPRESS APPRECIATION FOR AUTHORIZATION TO INFORM PRIME MINISTER OF THE USG RESPONSE. I THINK IT WOULD HAVE BEEN MOST UNFORTUNATE, GIVEN ITS NATURE, IF RESPONSE HAD BEEN DELIVERED TO HIM THROUGH HIS FOREIGN MINISTER, THEREBY ADDING TO EMBARRASSMENT HE MUST ALREADY FEEL. I DID NOT, INCIDENTALLY, INDICATE THAT OUR RESPONSE ON THE TERMINAL WAS IN ANY WAY INFLUENCED BY AGUSTSSON'S ALTHING COMMENTS OF APRIL 26. TO DO SO WOULD HAVE IMPLIED THAT AGUSTSSON'S VIEWS ON OUR SECURITY RELATIONSHIP WERE MORE IMPORTANT IN OUR DECISION-MAKING PROCESS THAN THOSE OF HIS PRIME MINISTER.

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